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093850

APR 19 1973

Mr. M. T. Allen, President
Government Services, Inc.
1135 21st Street, NW.
Washington, D.C. 20036

CNG 02159



Dear Mr. Allen:

In our March meeting we discussed our plan to provide you, upon completion of our 1972 audit and the issuance of our report to the Board of Trustees, a summary of our observations developed during the audit. Now that the audit has been completed and the report issued, we have prepared the enclosed management report which presents in some detail a number of matters which we believe warrant your attention.

We were very much encouraged by your positive reaction to the desirability of highlighting management opportunities for improving the efficiency of the corporation's operations and its internal controls. Our observations deal with cash management, inventory management, accounts receivable collection procedures, payroll, purchasing, and personnel. This was the first year of the Sequoia operation and we have some observations resulting from our limited work at that location.

We have discussed most of our observations with you or members of your staff and are prepared to meet for such further discussion as might be of assistance to you in following through on actions necessary to overcome or correct the situations described. Also, we will be happy to furnish any additional material that might assist you in your study of the issues. We would appreciate your views and comments on these matters and advice as to any action taken or contemplated.

It has been a pleasure working with you and your associates and we appreciate the excellent cooperation afforded us during the audit.

Sincerely,

H. L. Krieger

H. L. Krieger
Regional Manager

Enclosure

CEW:aj

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AUDIT OF
GOVERNMENT SERVICES, INC.

CALENDAR YEAR 1972

MANAGEMENT REPORT

U.S. GENERAL ACCOUNTING OFFICE

WASHINGTON REGIONAL OFFICE

APRIL 18, 1973

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AUDIT OF CENTRAL OFFICE

CASH MANAGEMENT

In prior years we analyzed GSI cash management practices and recommended certain changes such as a reduction in the number of bank accounts. We are quite pleased with the positive actions taken by the Corporation in responding to our past suggestions.

Our audit this year did not include an analysis of cash management. However, because the December 31, 1972, balance of "cash on hand and in banks" was more than double the 1971 balance, we believe the subject warrants some attention.

Because idle cash is not a productive asset, the optimum cash balance on hand should be the minimum amount required to meet financial obligations as they occur. For most corporate operations, a cash level can be established based on normal operating requirements, with protection against contingencies provided through investments in short-term securities such as U.S. Treasury securities.

We therefore suggest that an evaluation be made of the corporation's cash position to determine the appropriate balance to have on hand. This would require a study of the cash flow and the confidence level needed to assure a smooth, consistent operation. Any cash above the desired balance could then be invested.

We suggest also that, as a part of your study, consideration be given to reducing further the number of bank accounts maintained. There are now 25 active accounts, of which 10 are in the Washington, D.C., metropolitan area. Many of these accounts require that a minimum balance

be maintained. A reduction in the number of accounts should therefore further reduce idle cash on hand. Also, fewer accounts would be much easier to control. Further reductions in the number of accounts may be possible with an increased use of armored car service.

INVENTORY MANAGEMENT

The taking of physical inventories should be a well planned and coordinated operation. Counts should not be made by employees responsible for the inventory, and participants should be guided by written instructions. We noted that the yearend physical inventory procedures at the maintenance shop, commissary, and Indian Room Gift Shop often did not conform to generally accepted procedures.

At the Indian Room and the maintenance shop, inventory items were counted by personnel of these units rather than by independent parties. The managers of these units informed us that unit employees had made the counts to speed up the inventory taking process. Accounting personnel accepted the counts without further verification.

Several days after the completion of the physical inventory, changes had to be made to the inventory counts because some items had been overlooked and not counted. The unit manager telephoned the revised counts to the accounting department, and changes were made to the inventory balances without further verification.

We noted also that written instructions were not available at any of the locations for use by the personnel conducting the inventories.

We suggest that, in taking future physical inventories, inventory teams be made up of individuals who are not responsible for the maintenance

of inventory records or for custody of the inventory. We suggest also that written instructions be prepared and made available to all employees participating in the physical inventory. We suggest that, as a minimum, the instructions provide guidance as to how the inventory teams will be organized; inventory staff procedures; handling of incoming purchases and goods issued during the inventory taking; recording of counts, including instructions on the use of prenumbered tags; reconciliation of inventory counts with accounting records; and procedures for making recounts and changes to the physical counts.

ACCOUNTS RECEIVABLE COLLECTION PROCEDURES

Accounting for receivables is an important form of control over agency resources because it results in a record of amounts due that must be accounted for. The accounting system should therefore include procedures for systematic follow-ups of overdue accounts.

In selecting accounts receivable to be confirmed, we found that many of the receivables for meals charged at the executive dining rooms were 60 or more days overdue and that the amounts due were often in excess of \$100. We found that there were no formal, written procedures for collecting or following up overdue accounts. As a result, many customers with overdue accounts were being permitted to make additional charges.

For accounts 60 days overdue, the accounts receivable clerk's practice is to telephone the customer or to send a second bill. If this does not result in payment, the only additional action taken is another telephone call.

We suggest that the corporation's procedures be revised to provide for more timely follow-up and collection of receivables. We suggest that this action be initiated when an account is 30 days delinquent (instead of 60 days, as in the current practice) and that the revised procedures also include guidelines for disallowing further credit to delinquent customers.

PAYROLL

To determine the propriety of the payroll and related expenses, we selected, at random, payroll payments to 67 individuals from the pay period December 16-29, 1972. We found that existing internal controls over payroll data were generally adequate but believe that improvement is needed in controls over timecards and tax withholding certificates.

Timecards

The corporation uses timeclocks at most units to record employee attendance. Each employee is required to have his or her timecard punched by the timeclock when arriving and departing duty. At the end of a pay period each timecard must be approved by a unit manager or his designee before it is sent to the payroll department.

We found that (1) timeclocks were not always used to punch timecards and, as a result, hours of employee attendance were either written in or left blank and (2) many timecards were not approved by a unit manager or his designee.

We suggest that the payroll department and the unit managers enforce the requirement for using timeclocks to record employees' daily time.

We suggest also that steps be taken to insure that all timecards are approved by a unit manager or his designated assistant. If a change to a timecard is necessary, we suggest that the unit manager's approval of the change be indicated.

Withholding for Federal
and State taxes

The Internal Revenue Service (IRS) requires that employers take into account an employee's marital status and number of exemptions in determining the appropriate amount of Federal income tax to be withheld. IRS further requires that, if an employee fails to furnish the necessary information, the employer must consider the employee to be single and to have no withholding exemptions.

We randomly reviewed the files of 37 employees to determine whether Federal and State income taxes were being withheld in correct amounts. Our review of the personnel files and payroll master data file for these employees disclosed that, for 16 employees (43.2 percent), either the files did not contain withholding certificates or the withholding certificates on file did not agree with the master file.

We discussed this matter with the Payroll Supervisor who said that, in those instances in which withholding certificates were not on file, the certificate had been either mislaid, improperly filed, or lost enroute from the Personnel Department. We were not able to obtain an explanation for the differences between the payroll master data file and the withholding certificates on file.

We suggest that current withholding certificates be obtained for all employees and that the master payroll data file be updated to indicate each employee's current withholding status. This would insure that correct tax withholdings are being made for each employee.

PURCHASING

Indian Room Gift Shop

We inquired into the mark-up procedures used for items sold at the Indian Room Gift Shop. The manager of the shop informed us that the price tag on each item contained an alphabetical code indicating its cost. The manager stated that there was no formal mark-up policy and that most items were marked up 100 percent or more. Since there was no formal pricing policy, the price of the items could be set at any amount.

We observed many items which appeared to be identical but which had different selling prices. The manager informed us that the reason for this was that the items, although similar, were purchased directly from Indians at varying prices.

We inquired also into the procedures used to record purchases at the gift shop. The Supervisor of Inventory Records informed us that when the gift shop manager makes a purchase, a GSI Form 115 (Daily Schedule of Purchases) is prepared and sent to the accounts payable section. The accounts payable section makes the appropriate entries and forwards a reimbursement check to the manager.

The Supervisor of Inventory Records stated that no other documentation (receiving slips, purchase invoices, etc.) is received with the GSI Form 115.

Because the form gives only a description of the item purchased and the purchase price, the accounting department cannot verify the quantity purchased, the purchase price, or the date received to source documentation.

The value of the inventory (\$108,000) at the gift shop is increasing each year. We believe, therefore, that the time is appropriate for strengthening the shop's internal controls. We suggest that procedures be established to insure better control over the shop's purchasing and pricing activities. We believe the procedures should (1) define a uniform pricing policy to be followed by the shop and (2) require documentation of purchases to permit verification by the accounting department.

Discounts on purchases

During our audit of purchase transactions, we noted that available discounts were sometimes not taken. Personnel in the accounts payable section informed us that this usually happened because the accounts payable clerk did not know that a discount was available or because the invoice from the unit was not submitted in a timely manner.

We suggest that the accounts payable section be instructed to take all available discounts and that unit managers be required to submit invoices to the accounting department promptly so that discounts can be taken.

PERSONNEL

Training program for new employees

We believe improvements in many of the operational areas discussed in the preceding sections could be achieved by placing increased emphasis on training new administrative employees.

Through our observations and discussions with several new employees, we found that new hires are not given formal training. They usually receive instructions from the persons they are replacing or from their supervisors. As a result, new employees often are not fully informed of their duties. Since there are no position descriptions, accounting manuals, or operating instructions, these employees usually develop their own way of performing their jobs.

We suggest that new administrative employees be given formal training to better prepare them for their assigned duties. We believe each new employee should be fully informed as to the importance of his job and how it fits into the total administrative operation and should be carefully instructed on the detail procedures to be followed in carrying out his responsibilities.

Salaries of administrative personnel

We believe that an effective administrative function, staffed with capable personnel, is one of the cornerstones of a sound corporate operation.

During our review of payroll transactions, we observed that the wage rates for clerical and supervisory personnel in the accounting department were somewhat lower than those paid by other employers.

Although some employees may have neither the desire nor the capability to advance in the organization, we believe a large number can be expected to desire financial and status improvement. Therefore, it seems reasonable

to assume that the salary scale may have been a significant factor in causing capable personnel to look outside the corporation for opportunity and may have added to the corporation's difficulties in attracting qualified and capable personnel to fill vacant positions.

We suggest that the corporation's current administrative salary levels be evaluated to determine whether they are competitive with comparable positions in other companies.

AUDIT OF SEQUOIA/KINGS CANYON

NATIONAL PARK

During the week of November 27 through December 2, 1972, we observed the physical inventory of the Sequoia/Kings Canyon National Park concession and noted that an opportunity exists for making certain management improvements at that location. We discussed the following suggested improvements with Sequoia officials and their comments have been incorporated as appropriate.

DESIRABILITY OF HAVING OPERATING MANUAL

A manual of operating procedures is an important part of a sound internal control system. By insuring compliance with corporate policies and providing clear definitions of individual responsibilities, an effectively implemented manual of operating procedures can result in more efficient management.

The Sequoia concession units do not have an operating manual. Our observation of procedures and practices during our visit to Sequoia indicates that there is a need for such a manual. For example, the retail method is used to account for inventory. To accurately compute the cost of sales under this method, it is necessary to maintain records of all mark-ups and mark-downs. This information, however is not being maintained at Sequoia.

Also, we found that the Retail Manager operates autonomously in that he prepares purchase orders and submits them directly to vendors without

any review or approval. When the vendor's invoice is received, the Retail Manager compares it to the record of goods received and approves the invoice for payment. The approved invoice is then sent to the Chief Accountant who forwards it to the central office for payment.

In a retail operation good internal control procedures require a segregation of duties so that the same individual will not be responsible for making purchases, receiving the goods and approving payment. If personnel limitations do not permit a segregation of duties, copies of purchase and receiving reports should be forwarded to the accounting section for review. In addition, limitations should be placed on the amount of purchases which can be made without approval.

We believe an operating manual is needed at Sequoia to insure that necessary accounting data is maintained, to provide clear definitions of individual responsibilities, and to establish the internal controls needed for an effective operation.

Sequoia officials concurred in the need for an operating manual and informed us that the central office in Washington, D.C., has plans to develop one. We suggest that this project be given the management support necessary to insure the manual's early development.

PHYSICAL CONDITION OF FACILITIES

During our visit to Sequoia, we observed that the facilities housing the Studio Gift Shop and the Giant Forest Gift Shop needed structural improvements. The storage facilities for the Studio Gift Shop did not provide adequate protection from the weather. In the storage area

